



Implementing Product Diversification Strategies: A Construction Industry Perspective

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Introduction

In order to sustain their long-term competitiveness, construction companies are under constant pressure to strategically realign their businesses to adapt to changes in market dynamics. Risk is endemic to construction industry and product diversification has been found effective in achieving economic stability in construction companies [1]. Construction chemicals play a major role in the construction industry and hence, their diversification is crucial to the success of operations. Construction chemicals, also known as dry mortars, belong to specialty chemicals that are used in construction industry to provide high quality performance and durability to structures. This study details a **real-life example of**

- How product diversification can be initiated,
- How fast and efficiently organizations can respond to changing market and capital needs while growing this new product line.

Objectives

The objective of this research is to evaluate product diversification methods for an international paint manufacturing company to increase efficiency in operations while meeting the increasing market demand. The study focuses on an international company based in Algeria, ALG. ALG, a leading paint manufacturer, is anticipating increasing demand in construction materials due to the uprising construction industry in the nation.

Market Analysis

i. Global Industry Growth Data

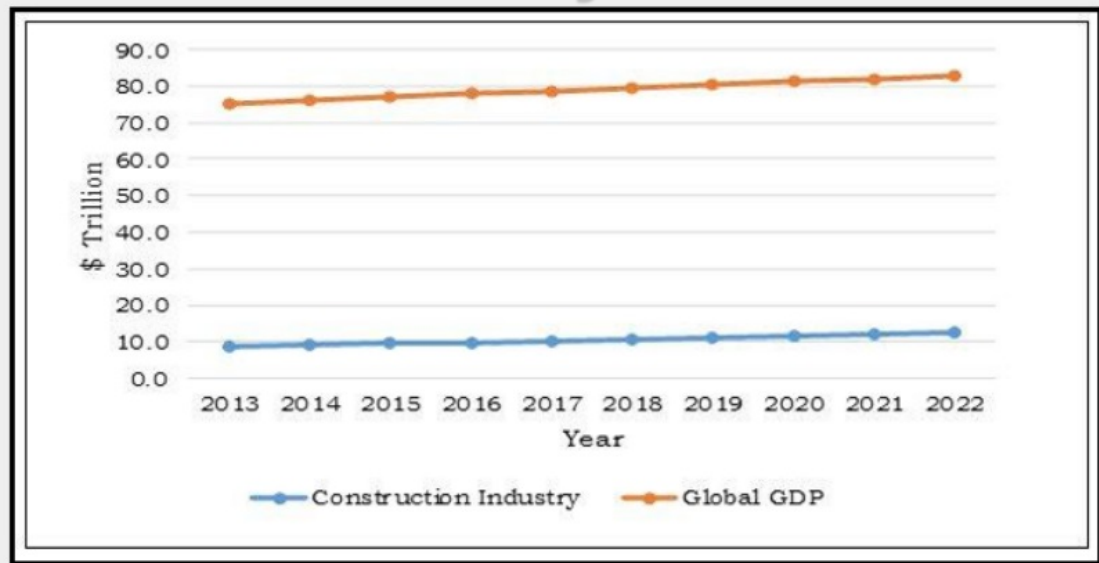


Exhibit 1. Construction Industry vs. GDP 2013-2022 [3]

ii. National Construction Data

- Although in slow pace, construction business is backed up by large scale ventures by the government.
- Recently, Algerian government invested \$215 billion to various infrastructures to boost the construction industry in the nation.[4]

iii. Organizational Data

- The construction industry is starting to adopt new technology. Painting is the last stage in construction; it serves many purposes, the most important being surface protection.
- ALG should engage in this change because **surface preparation is critical to paint application** and to avoid potential paint and substrate incompatibility.

Diversification Approach

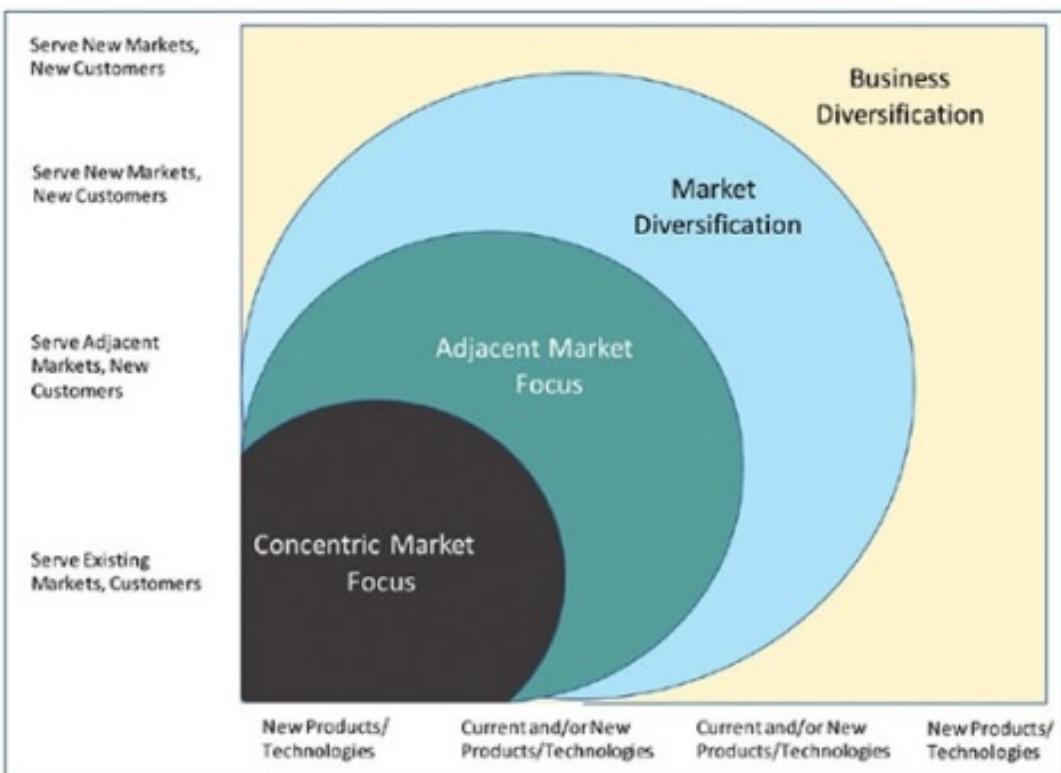


Exhibit 2. Growth Strategies [5]

The results of the analyses indicate that the best strategy ALG can follow is the targeting the concentric market. This is conservative and one of the safest product diversification strategies that would efficiently mitigate risk.

Discussion

In order to move forward, ALG team was challenged with the four key questions. Is it real? The product and market are real, and it is the best opportunity for the company to step up. Is it worth it? Certainly, the goal of fixing customer's problem can be addressed, and profit is promising. Can we win? Product price is competitive and being a market leader in paint, they can be a key player. Is it compliant? In coordination with Safety Engineer, all regulatory hurdles and potential barriers were identified and being taken care of.

Exhibit 4. Decision Consideration [6]

Problem Design

Problem design includes multiple steps involving financial outlook, economic analysis, diversification selection, source identification, and risk assessment to ensure the success of the implementation.

Methodology

The problem modeled as a business plan is solved using a thorough industry analysis which included data and information collection regarding the nation, industry, company, products, and product diversification.

Stage Gate Process were conducted for analysis:

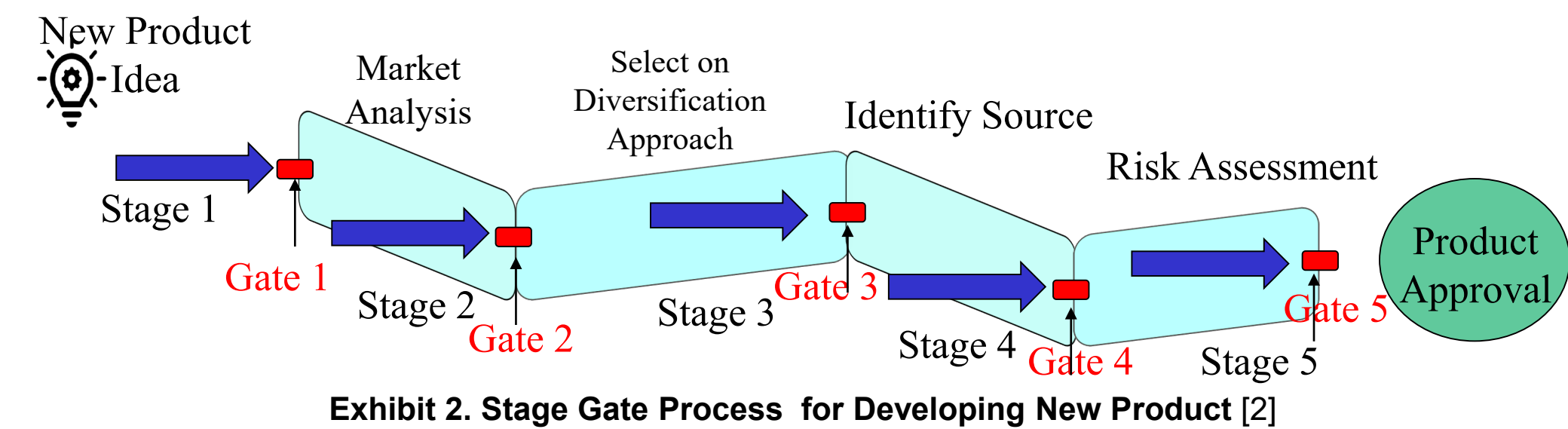


Exhibit 2. Stage Gate Process for Developing New Product [2]

Problem Statement

The product diversification strategy developed for ALG will offer the company various opportunities for growth by increasing its revenues to its existing customer body since the nature of the product and the distribution networks are parallel.

Results

Source Identification

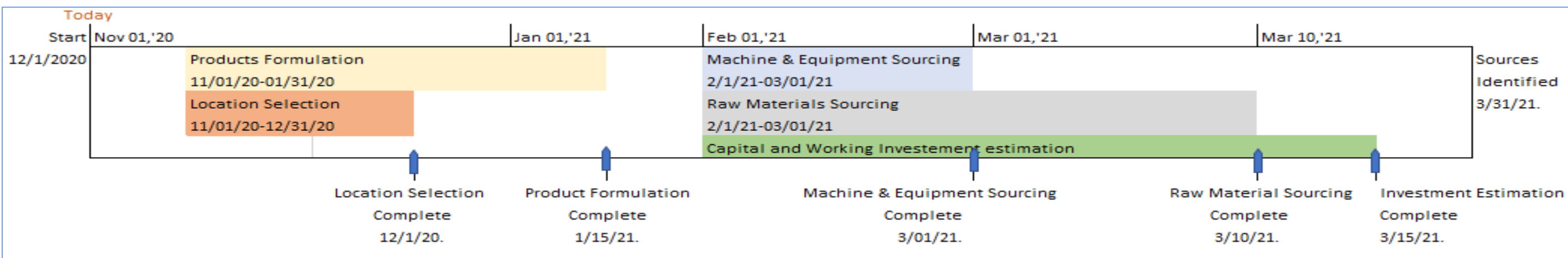


Exhibit 3. Gantt Chart for Identifying the Sources Needed for the Construction Chemical Product

The ALG team was able to identify the sources required for the production of construction chemical products. The sources include product formulation, location, machinery and equipment, raw material and the monetary investment funds. Formulation cost came out to be competitive. With a total investment of \$30,000, 30% annual profit is expected on 12,000 bags production of 3 construction chemical products.

Risk Assessment

PESTLE Analysis

Political	Economical
1. Changing trade rules and policies	1. Slow growth of economy
2. Fluctuation in prices of raw materials	2. Fluctuation in currency exchange rate
Social	Technological
1. Responsible Employer	1. Focus on the latest trend and technology in manufacturing operation
2. Care for employee and customer safety during coronavirus pandemic	
Legal	Environmental
1. Compliance with existing standards on business operations	1. Offers customers meet their innovative sustainable goals

SWOT Analysis

Strengths	Weaknesses
1. Stable Finances	1. Slow growth of economy
2. Strong presence locally and in nearby countries	2. Opposition from conservative investors
3. Strong brand value	
4. Aggressive to innovation	
5. Strong understanding of surface preparation which is their advantage over competitors (multinational companies)	
5. Strong R&D team	
Opportunities	Threats
1. Growth of construction industry	1. Competing multinational companies may result to low market share
2. Expand to new markets	2. Fluctuation in country's currency exchange rate

Conclusion

After careful and calibrated approach, it is recommended that ALG company should venture into construction chemicals production in response to increasing construction business, new technology trends, and customers' needs. Being a paint market leader, this opportunity will strengthen ALG's presence in the market. With the economic downturn due to recent pandemic, product diversification can help increase efficiency of ALG. As the situation continues to unfold, supply chain disruption is a potential, especially for multinational companies (who are the major player in construction chemical) with facilities in regional sites. ALG can offer business continuity to this changing demand pattern.

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